

Knowing when and how to distribute 457(b) plan funds



The nonqualified deferred compensation 457(b) plan you purchased from Principal® is an important part of your organization's key employee benefits. It's helped you recruit, reward, and retain top talent. And when your eligible participants retire, become disabled, or pass away, it will be time for them, or their loved ones, to receive the benefits from the plan. Here's what you need to know—we're here to help.

Looking for more details?

Log in to your plan
sponsor website at
Principal.com.

When and how do you distribute payments from the plan?

Items to consider:

- Distributions usually happen at retirement, but other options are available as noted in your plan.
- Direction for distribution is usually required within 60 days of the qualifying event, such as retirement or death.
- Participants are able to choose the form of payment, such as installments or lump sum, based on your plan's provisions.
- Participants can choose to defer payment one time before the first or lump-sum payment is paid—up to age 73.
- Any distribution method changes must be done in writing from the participant prior to the first payment and approved by you as the plan sponsor. The date, once chosen, cannot be changed.

Starting the process:

- Log in to Principal.com and submit a distribution request using the benefit valuation request, via the distribution management tool.¹
- Principal will value the participant's account using the requested valuation date and determine the amount available for distribution.
- An email will be sent to you from Principal once the distribution is processed.

Where do the funds come from to make these payments?

When your 457(b) plan was established, you determined the funding for it. So, as you prepare to make distribution payments to your eligible participants, you have options for how to fund those payments, depending on how your plan was set up:

Liquidate funds:

- If instructions are established within the plan, Principal will automatically follow those instructions and transfer the money to the bank account listed.
- If the plan has no instructions, contact your nonqualified plan service representative about next steps.

Grantor trust:

- If a Grantor trust is established to hold the asset and you're using the trust's optional W-2/1099 participant distribution check-cutting services, the trust will send the distribution amount (net applicable tax) directly to the plan participant, and no action will be needed on your part as the plan sponsor.

How do eligible employees receive distributions?

- Payments from your 457(b) plan are usually run through your payroll and treated as supplemental wages for the participant.
- Apply appropriate taxes to the distribution payments.
- The distribution amount will appear in Box 1 (other wages) of the participant's W-2 form or on the participant's 1099 form.
- If your plan has a Grantor trust, the payment to the participant will come from the trust.



Contact your nonqualified plan service representative at 866-694-6386.

¹ Must have Key, Asset & Benefit, Benefit, or optional Limited Decision Maker authorization. Online benefit valuation request submissions may not be available for all plans. For questions, contact your nonqualified plan service representative.



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